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# **DECIMAL PRICING TOPICS**

1. Fairness and Efficiency
2. Trade Examples
3. Volatility and Pricing

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My name is Mark Forziati, I am a senior trader at Tudor Investment Corporation in Boston, MA. I am very honored to be here today before the House Subcommittee on Finance to offer my opinion on decimalization of the U.S. stock market. I have been involved in the securities industry for over seventeen years. I have witnessed many changes during this time but none as important as our topic today. I have executed trades in most stock markets around the world, the U.S. market is one of the few if not only stock market where stock prices are still quoted in fractions. Even the Russian stock market which prices most of its stocks in U.S. Dollars, uses decimal pricing.

It was during my tenure as a member of the New York Stock Exchange Institutional Traders Advisory Committee (ITAC 1991-1994) that I began to argue vociferously for the decimalization of stock quotations. I felt then, as I do now, that decimal pricing would make our market more efficient and more competitive. It is important to remember the U.S. stock market is the public's market. It is not owned by any one entity or organization, the public is the ultimate shareholder. They should have the freedom to choose the price they wish to trade at. Freedom is the principle on which this great country was founded and freedom of pricing is needed to make our markets fair to all participants.

As professional traders, we have other venues to execute transactions, such as the Instinet system. Instinet is an electronic transaction system which accepts quotes as low as 1/64 or one and one-half cents (0.015). As an example, I will highlight the stock of Kmart Corp. During most of 1996, Kmart stock price was below \$10 per share. On most days, the

stock price would fluctuate no more than one-quarter of a point or 25 cents. Investors were required to buy or sell Kmart shares at the minimum spread of one-eighth or 12.5 cents!!! This equates to a 1.5% difference between bid and ask price!!! This is analogous to a \$100 stock having a quote spread of \$1.50, hardly efficient and more importantly very unfair!!! I was able to purchase Kmart's stock through the Instinet system at a price in between the bid-ask spread on any U.S. listed stock exchange (like the seller I might add). As a result both buyer and seller received better and fairer prices than available on any listed stock exchange. Unfortunately, transactions like these are not the norm and are unavailable to all investors. This inefficiency of fractional quotation forces investors to buy at higher and sell at lower prices! I will explain: a seller of 100,000 shares of XYZ would like to sell at the price of 25.50 per share. I would like to buy XYZ, but not at 25.50 per share, so the next lower increment is  $25 \frac{3}{8}$ . Both buyer and seller are in a stalemate under the current system. I asked my broker to bid the seller  $25 \frac{3}{8}$  for 50,000 shares and  $25 \frac{1}{2}$  for the remaining 50,000 shares. The seller agreed. The transaction takes place at a price of 25.435 on our records but is required to trade in fractions on the NYSE! Very creative, but inefficient and quite possibly an impediment to increased trading volume. I could present many more examples similar to these, but hopefully I have made my point.

There is great concern among opponents of decimal pricing that broker-dealers "profits would be greatly reduced" and liquidity will disappear causing more volatile markets. I strongly disagree. In the first week of April 1997, the U.S. stock market experienced a sharp increase in volatility over investor concern about rising interest rates. I witnessed

first hand the bid-ask price spread on most stocks increase from one-eighth ( $1/8$ ) or one-quarter ( $1/4$ ) of a point to one-half ( $1/2$ ) or three-quarters ( $3/4$ ) of a point. The Standard and Poor's 500 (SP500) futures contract spread expanded to one dollar from its usual .10 cents. Again, reflecting uncertainty of the stock markets direction over the short term. It is volatility which will determine the spread on stocks, if investors choose to narrow this spread they should have the freedom to do so. The issue of pricing should be left to the market and the public is the market.

In closing, I will use the words of the great author Victor Hugo, "There is one thing stronger than all the armies in the world and this is an idea whose time has come!!!" We have seen this ring true in government, politics and business. It is now time for stock prices.

Thank you very much.

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## EXPERIENCE:

Tudor Investment Corporation Head of Equity Trading	August 1993 - Present
Essex Investments Head of Equity Trading	June 1992 - July 1993
Dewey Square Investors Head of Equity Trading	May 1988 - June 1992
Goldman, Sachs and Co. Equity Trader	August 1981 - May 1988

## ASSOCIATIONS:

• New York Stock Exchange Institutional Traders Advisory Committee	1991 - 1994
• Boston Stock Exchange Institutional Traders Advisory Committee	1993 - Present
• Series 3 Registered - National Futures Association	